

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
BASIC FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED DECEMBER 31, 2005**

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
YEAR ENDED DECEMBER 31, 2005**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mountain Green Sewer Improvement District

We have audited the accompanying financial statements of the business-type activities of Mountain Green Sewer Improvement District, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mountain Green Sewer Improvement District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Mountain Green Sewer Improvement District, as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2006, on our consideration of Mountain Green Sewer Improvement District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Mountain Green Sewer Improvement District
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The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wood Richards & Associates

Ogden, Utah
June 20, 2006

MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Mountain Green Sewer Improvement District (the "District") annual financial report presents our discussion and analysis of the financial performance of the District during the calendar year 2005. This discussion has been prepared by District management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), *Basic Financial Statements and Management's Discussion and Analysis*.

One of the most important questions asked is whether the District as a whole is better or worse off as a result of the year's activities. The key to understanding this question is the Balance Sheet, the Statement of Revenues, Expenses and Changes in Fund Net Assets, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Balance Sheet includes all assets and liabilities. The District's net assets (the difference between assets and liabilities) are one indicator of the District's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the District's financial health when considered with non-financial facts such as growth of the system and the condition of the facilities.

The Statement of Revenues, Expenses and Changes in Fund Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

REPORTING ENTITY

The financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies.

Balance Sheet Information

A summarized comparison of the District's assets, liabilities and net assets at December 31, 2005, and 2004 are as follows:

MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT BALANCE SHEET AS OF DECEMBER 31, 2005

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 629,444	\$ 451,446
Other assets	3,500	5,039
Capital assets	<u>1,998,096</u>	<u>2,001,604</u>
Total assets	<u>\$ 2,631,040</u>	<u>\$ 2,458,089</u>
Current liabilities	\$ 34,541	\$ 31,357
Noncurrent liabilities	<u>129,323</u>	<u>153,700</u>
Total liabilities	<u>163,864</u>	<u>185,057</u>
Net assets:		
Invested in capital assets, net of related debt	1,836,246	1,819,354
Restricted	482,888	289,045
Unrestricted	<u>148,042</u>	<u>164,633</u>
Total net assets	<u>2,467,176</u>	<u>2,273,032</u>
Total liabilities and net assets	<u>\$ 2,631,040</u>	<u>\$ 2,458,089</u>

Cash and Investments

The net cash provided by operating activities is \$10,151. Major sources and uses of cash and investments include: impact fees of \$232,086, acquisition of capital assets which required \$50,877, and payment of revenue bonds, which required \$28,550.

Overall, the District's cash and investments increased by \$177,998. The total ending balance of cash and investments is \$629,444.

Capital Assets

Net capital assets at the end of 2005 and 2004 were \$2,467,176, and \$2,273,032, respectively. The District's capital assets consist of land, buildings, equipment, and the sewer system.

The significant differences between 2004 and 2005 were: the purchase of a new aerator for \$10,217, construction on our expansion for \$25,125, and a John Deere tractor for \$15,150.

A summary of the asset balances for the 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 87,612	\$ 87,612
Building	104,853	104,853
Equipment	93,612	59,710
Sewer system	<u>2,645,706</u>	<u>2,620,581</u>
Subtotal	2,931,783	2,872,756
Accumulated depreciation	<u>(933,687)</u>	<u>(871,152)</u>
Net capital assets	<u>\$ 1,998,096</u>	<u>\$ 2,001,604</u>

Debt Outstanding

Long-term liabilities, less the current portion, for 2005 and 2004 were \$129,323, and \$153,700, respectively. Long-term debt was reduced by \$20,400. The sewer revenue bonds will be paid in full by 2009.

Current liabilities, including the current portion of noncurrent liabilities totaled \$34,541 in 2005 and \$31,357 in 2004.

Net Assets

The District's total net assets as of December 31, 2005 and 2004 were \$2,467,176, and \$2,273,032, respectively.

Investments in capital assets net of related debt totaled \$1,836,246 as of December 31, 2005. Restricted net assets totaled \$482,888, and unrestricted net assets totaled \$148,042.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses and changes in fund net assets presents the District's result of operations. A summarized comparison of the District's revenues, expenses and changes in net assets for the years ended December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Sewer charges	\$ 119,436	\$ 116,298
Property taxes	24,969	23,134
Miscellaneous	<u>4,617</u>	<u>675</u>
Total operating revenues	149,022	140,107
Nonoperating revenues:		
Impact fees	232,086	48,909
Interest income	<u>15,188</u>	<u>6,837</u>
Total nonoperating revenues	<u>247,274</u>	<u>55,746</u>
Total revenues	<u>396,296</u>	<u>195,853</u>
Expenses:		
Depreciation	62,535	60,033
Wages	40,682	33,519
Utilities	14,201	15,722
Maintenance	35,298	19,732
Professional services	30,789	4,017
Other operating expenses	<u>18,647</u>	<u>16,924</u>
Total operating expenses	202,152	149,947
Change in net assets	194,144	45,906
Beginning net assets	<u>2,273,032</u>	<u>2,227,126</u>
Ending net assets	<u>\$ 2,467,176</u>	<u>\$ 2,273,032</u>

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005
*Statement of Revenue and Expenses***

The significant increase in revenues was due to the large increase in impact fees. In 2005, the District saw a significant rise in interest rates on its investments, which almost doubled.

There was a significant increase in the professional service expense, which was due to the aerial surveys and related fees associated with the expansion of the sewer lines. A significant increase also occurred with maintenance and repairs of the sewer lines.

Statement of Revenue and Expenses (continued)

The District had an operating loss of \$53,130, and a change in net assets of \$194,144, which was attributable to the sewer impact fees.

The total revenues for 2005 and 2004 were \$396,296, and \$195,853, respectively. Impact fees provided 58.6% of the District's revenue in 2005 and sewer charges provided 30.1% of the District's revenues in 2005.

The total expenses for 2005 and 2004 were \$202,152, and \$149,947, respectively.

Significant Projects and Events for 2005

Late in 2005 a new aerator was purchased and installed for slightly over \$10,000.

During 2005 there were 34 new connections. At the end of the year there were a total of 467 connections.

The current stated capacity of the system is 900 connections. The District is seeking state approval for an activated sludge process. Once constructed this new process will double the capacity to an estimated 1800 connections.

Because Mountain Green is a rapidly growing area the District anticipates construction of the new process will start during 2007. It is anticipated that developer deposits will finance this new construction.

The District has issued a number of "will-serve" letters to developers. These letters commit the District to provide services to future developments. At the end of 2005 the District is fully committed on its existing 900 connection capacity.

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District's Manager at 5455 W. Old Highway Road, Morgan, UT 84050.

MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
BALANCE SHEET
DECEMBER 31, 2005

ASSETS	2005	2004 Comparative Only
Current assets:		
Cash	\$ 629,444	\$ 451,446
Accounts receivable	2,822	4,548
Taxes receivable	678	491
Total current assets	632,944	456,485
Noncurrent assets:		
Land	87,612	87,612
Net depreciable capital assets	1,910,484	1,913,992
Total noncurrent assets	1,998,096	2,001,604
Total assets	\$ 2,631,040	\$ 2,458,089
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 2,014	\$ 2,807
Current portion of noncurrent liabilities	32,527	28,550
Total current liabilities	34,541	31,357
Noncurrent liabilities:		
Due in more than one year	129,323	153,700
Total noncurrent liabilities	129,323	153,700
Total liabilities	163,864	185,057
Net assets		
Invested in capital assets, net of related debt	1,836,246	1,819,354
Restricted for impact fees	482,888	289,045
Unrestricted	148,042	164,633
Total net assets	2,467,176	2,273,032
Total liabilities and net assets	\$ 2,631,040	\$ 2,458,089

The notes to the financial statements are an integral part of this statement.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>2005</u>	<u>2004 Comparative Only</u>
Operating revenues:		
Sewer charges	\$ 119,436	\$ 116,298
Property taxes	21,034	21,637
Property tax - fee in lieu	3,935	1,497
Miscellaneous	4,617	675
Total operating revenues	<u>149,022</u>	<u>140,107</u>
Operating expenses:		
Auto expense	1,435	1,939
Supplies	671	2,965
Depreciation	62,535	60,033
Wages	40,682	33,519
Utilities	14,201	15,722
Taxes	3,520	2,514
Maintenance	35,298	19,732
Office expense	8,800	3,412
Travel	1,024	356
Professional services	30,789	4,017
Insurance	2,957	2,986
Miscellaneous	240	2,752
Total operating expenses	<u>202,152</u>	<u>149,947</u>
Operating income (loss)	<u>(53,130)</u>	<u>(9,840)</u>
Nonoperating revenues (expenses):		
Interest	15,188	6,837
Impact fees	232,086	48,909
Total nonoperating revenues (expenses)	<u>247,274</u>	<u>55,746</u>
Change in net assets	<u>194,144</u>	<u>45,906</u>
Total net assets - beginning	<u>2,273,032</u>	<u>2,227,126</u>
Total net assets - ending	<u><u>\$ 2,467,176</u></u>	<u><u>\$ 2,273,032</u></u>

The notes to the financial statements are an integral part of this statement.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	2005	2004 Comparative Only
Cash flows from operating activities:		
Cash received from customers	\$ 150,561	\$ 138,648
Cash payments to suppliers for goods and services	(99,728)	(55,907)
Cash payments to employees for services	(40,682)	(33,519)
Net cash provided (used) by operating activities	10,151	49,222
Cash flows from capital and related financing activities:		
Impact fees	232,086	48,909
Payment of revenue bonds	(28,550)	(28,550)
Acquisition of capital assets	(50,877)	(33,491)
Net cash provided (used) by capital and related financing activities	152,659	(13,132)
Cash flows from investing activities:		
Interest received	15,188	6,837
Net cash provided (used) by investing activities	15,188	6,837
Net increase (decrease) in cash	177,998	42,927
Cash - beginning of year	451,446	408,519
Cash - end of year	\$ 629,444	\$ 451,446
 Cash flows from operating activities:		
Operating income (loss)	\$ (53,130)	\$ (9,840)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	62,535	60,033
(Increase) decrease in taxes receivable	(187)	(57)
(Increase) decrease in receivables	1,726	(1,402)
Increase (decrease) in accounts payable	(793)	488
Total adjustments to operating income (loss)	63,281	59,062
Net cash provided by operating activities	\$ 10,151	\$ 49,222
 Noncash capital and related financing activities:		
Long-term loan for the acquisition of a capital asset	8,150	

The notes to the financial statements are an integral part of this statement.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Significant Accounting Policies

The Mountain Green Sewer Improvement District started operation in 1990 and is managed by elected Board members. The District provides sewer service to the Mountain Green area of Morgan County.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB). Based upon the application of the criteria established by GASB Statement No. 14, the District has no component units.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable that do not conflict with or contradict GASB pronouncements). Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise fund, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

Measurement Focus and Basis of Accounting

The Accounts of the Mountain Green Sewer Improvement District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The District has only one main fund which is an enterprise fund.

Accrual:

The government's financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Significant Accounting Policies (continued)

The District has the following fund type:

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

Enterprise Funds account for those operations that are financed and operated in a manner similar to private business enterprises or where the governing body had decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

Cash

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements and the State Treasurer's Investment Pool.

Investments are stated at cost which approximates fair value.

Receivables and Payables

Receivables consist of all revenues earned at year end and not yet received. All trade receivables are shown net of allowance for uncollectibles. Allowances for uncollectibles are determined by the Board of Directors and are determined on an individual account basis. The District's allowance at the end of the year was \$0.

Property taxes are recognized when they are measurable and available. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due on November 30. Property tax receivables at year end were \$678.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair market value at the date of donation.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Significant Accounting Policies (continued)

Capital Assets (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets:</u>	<u>Years:</u>
Buildings	50
Equipment	5-10
Sewer system	10-50

Long-term Liabilities

The District reports long-term liabilities at face value on the balance sheet. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Equity

Equity is classified as net assets and displayed in three components:

- A) Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- B) Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Significant Accounting Policies (continued)

Equity (continued)

- C) Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the District's policy to first apply restricted resources before applying unrestricted resources when an expense is incurred for purposes by which both restricted and unrestricted net assets are available. The District only uses the restricted net assets for their specified purpose of impact fees.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist of charges for services including property taxes assessed for those services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

Budget Information

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act" by the Mountain Green Sewer Improvement District on or before December 15th for the following fiscal year, which begins on January 1. Budgets may be increased by resolution of the Board of Directors at any time during the year, following a public hearing.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first regular scheduled meeting in November, the Director submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to the formal adoption of the budget the Board of Directors will hold budget workshop meetings, which are open to the public.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Significant Accounting Policies (continued)

Budget Information (continued)

3. Prior to budget adoption the Board of Directors sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the Government Funds.
5. Budgets for the District are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Board of Directors during the 2005 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

2. Cash

The District's cash includes amounts in demand deposits. This cash is displayed in the account titled "Cash." Investments are stated at cost or amortized cost, which approximates fair value. Deposits are not collateralized nor are they required to be by State statute. The District's investments are also displayed on the balance sheet as "Cash."

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, \$237,497 of the District's bank deposits equal to \$339,556, were uninsured and uncollateralized.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

2. Cash (continued)

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities in Years				Quality ratings
		Less than 1	1-5	6-10	More than 10	
PTIF Investment	289,888	-	-	-	-	Not rated
	<u>289,888</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

2. Cash (continued)

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Maturities of the District's investments are noted in the previous table.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at December 31, 2005, are as follows:

Reconciliation of deposits and investments:	
Deposits	\$ 339,556
Investments	289,888
	<hr/>
Cash and cash equivalents	629,444
	<hr/>
Tie to statements:	
Cash	629,444
	<hr/>
	\$ 629,444

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

3. Capital assets

Capital assets are recorded at their historical cost. Capital asset activity for the year ended December 31, 2005 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 87,612	\$ -	\$ -	\$ 87,612
Total capital assets, not being depreciated	87,612	-	-	87,612
Capital assets, being depreciated				
Building	104,853	-	-	104,853
Equipment	59,710	33,902	-	93,612
Sewer system	2,620,581	25,125	-	2,645,706
Total capital assets, being depreciated	2,785,144	59,027	-	2,844,171
Accumulated Depreciation for:				
Building	(4,194)	(2,097)	-	(6,291)
Equipment	(43,094)	(5,001)	-	(48,095)
Water delivery system	(823,864)	(55,437)	-	(879,301)
Total accumulated depreciation	(871,152)	(62,535)	-	(933,687)
Total capital assets, being depreciated, net	1,913,992	(3,508)	-	1,910,484
Business-type activities capital assets, net	<u>\$ 2,001,604</u>	<u>\$ (3,508)</u>	<u>\$ -</u>	<u>\$ 1,998,096</u>

4. Long-term Liabilities

Revenue bonds

The District's revenue bonds require annual principal payments of \$28,550. The bonds have a 0% interest rate and will be paid in full by 2009. Maturities of the revenues bonds for the next four years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2006	28,550
2007	28,550
2008	28,550
2009	28,550
Total	<u>\$ 114,200</u>

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

4. Long-term Liabilities (continued)

Note payable

In 2005, the District entered into a loan for the purchase of a new piece of equipment with a financial institution. The loan bears an interest rate of 4.25% and will be paid in full on March 3, 2007. One annual payment will be made in March of 2006 and in March 2007. Maturities of the note payable for the next two years are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	3,977	380	4,357
2007	4,173	576	4,749
Total	<u>\$ 8,150</u>	<u>\$ 956</u>	<u>\$ 9,106</u>

Payable Water Resources

The District has received a loan from the state for \$39,500. This is a planning advance for the completion of the wastewater facilities plan and does not have any debt service requirements in the near future. This loan also bears a 0% interest rate.

Activity with long-term liabilities for the year ended December 31, 2005 was as follows:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2005</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds Payable	\$ 142,750	\$ -	\$ (28,550)	\$ 114,200	\$ 28,550
Payable Water Resources	39,500	-	-	39,500	-
Note Payable	-	8,150	-	8,150	3,977
	<u>\$ 182,250</u>	<u>\$ -</u>	<u>\$ (28,550)</u>	<u>\$ 153,700</u>	<u>\$ 32,527</u>

5. Restricted Net Assets

Impact fees – The District collects impact fees for the specific purpose of construction and expansion related to the payers. Therefore, the use of these funds are legally restricted.

**MOUNTAIN GREEN SEWER IMPROVEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

6. Property Tax

Property taxes are recognized when they are measurable and available. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are due on November 30.

7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has established a risk management program for workers' compensation. Premiums are paid out of the general fund.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. An estimate of claims liability also may include amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

Settlements have not exceeded coverages for each of the past three years. As of December 31, 2005, no liabilities were incurred due to such contingencies as discussed above.

**INDEPENDENT AUDITOR'S REPORT
STATE OF UTAH LEGAL COMPLIANCE**

To the Board of Directors
Mountain Green Sewer Improvement District

We have audited the accompanying financial statements of the business-type activities of Mountain Green Sewer Improvement District, for the year ended December 31, 2005 and have issued our report thereon dated June 20, 2006. Our audit included testwork on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Budgetary Compliance
Impact Fees

Truth in Taxation & Property Tax Limitations
Purchasing Requirements
Other General Compliance Issues
General Compliance Special Districts

The District did not receive any major or non-major State grants during the year ended December 31, 2005.

The management of Mountain Green Sewer Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, Mountain Green Sewer Improvement District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Wood Richards & Associates

June 20, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Mountain Green Sewer Improvement District

We have audited the financial statements of the business-type activities of Mountain Green Sewer Improvement District, as of and for the year ended December 31, 2005, which collectively comprise Mountain Green Sewer Improvement District's basic financial statements and have issued our report thereon dated June 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mountain Green Sewer Improvement District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Green Sewer Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mountain Green Sewer Improvement District
Board of Directors
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This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, Utah
June 20, 2006